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Mobilizing investment for development: Contribution of UNCTAD in the context of financing for development

Mobilizing investment for sustainable development: Background information and considerations pertinent to the Third International Conference on Financing for Development

Note by the UNCTAD secretariat

Executive Summary

This note provides background facts and information on crucial aspects to be considered in the preparation of the Third International Conference on Financing for Development, to be held in July 2015.

In principle, a vibrant national business sector and domestic private investment are the basis of growth in any economy. In practice, however, many developing countries and countries with economies in transition face shortages in domestic resources and therefore seek to mobilize external funds for economic growth, including for sustainable development.

Foreign portfolio investments have been the largest source of external development finance at the global level, but foreign direct investment (FDI) accounts for the majority in developing countries and countries with economies in transition. In addition to FDI and portfolio investments, other external sources such as commercial bank lending, official development assistance (ODA) and remittances can potentially be drawn upon.

In order to increase the absolute level of investment funds directed to sectors related to sustainable development goals and multiply their effectiveness and impact, partnerships between different external and internal sources of development finance and investment are desirable, to benefit from and synergize their unique attributes. Some combinations of funds and sources might be more effective for specific activities related to sustainable development goals (or sectors or projects related to such goals). An important aspect of partnerships is that they are not only about financing; each partner has unique

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characteristics and attributes, including technological assets, managerial and professional skills or knowledge of the relevant sector or project.

To achieve scale and scope, existing and innovative financial instruments and funding mechanisms to raise resources for investment in sustainable development goals need to be supported, adapted to purpose and scaled up as appropriate. Beyond policies for financing, consideration should be given to encouraging the private (and public) sectors, both foreign and domestic, to invest better. For instance, investors expanding the employment of women, minorities and other excluded groups – or boosting their skills through training programmes – support sustainable development through how they invest, and not only by how much.

Introduction

1. Attracting increased investment to sectors that are essential for economic development (e.g. infrastructure and power), for social impact (e.g. water and sanitation, health, education, food security and social housing) and for environmental sustainability (e.g. climate change mitigation and renewable energy) is at the centre of the current debate on sustainable development goals. The amounts needed go well beyond the reach of both ODA and domestic public sector resources in many countries, especially in the least developed countries (LDCs), and increased private investment is required to complement public investment. An overall policy framework that is conducive to attracting and benefiting from private investment is an essential prerequisite for investment-led inclusive and sustainable development, as re-emphasized by the Ministerial Round Table held during the 2014 World Investment Forum, organized by UNCTAD in October.

2. One of the important milestones in the work on financing for sustainable development that will be shared by all members of the international community is the upcoming Third International Conference on Financing for Development, to be held in Addis Ababa, Ethiopia, from 13 to 16 July 2015. The conference will bring together high-level political representatives, including Heads of State and Government, as well as relevant institutional stakeholders, non-governmental organizations and business sector entities. The outcome of this conference should constitute an important contribution to, and support the implementation of, the post-2015 development agenda. UNCTAD, as a development partner, will be fully engaged in this milestone activity, and the Investment, Enterprise and Development Commission is testimony to this. This note is intended to facilitate the Commission's discussions.

3. The International Conference on Financing for Development will set "an agreed and ambitious course for sustainable development financing beyond 2015".[1] The synthesis report of the United Nations Secretary-General on the post-2015 sustainable development agenda states: "Urgent action is needed to mobilize, redirect and unlock the transformative power of trillions of dollars of private resources to deliver on sustainable development objectives. Long-term investments, including FDI, are needed in critical sectors, especially in developing countries."[2]

4. Investors may finance projects through a range of financial instruments (e.g. international capital flows such as FDI, portfolio investment and commercial bank loans, as well as domestic sources). As each type of flow alone cannot meet the critical needs for the envisaged sustainable development goals, it is vital to leverage combinations of them to maximize their development impact. This note discusses various mechanisms for finance and the development implications of various modalities and forms of investments. Each type has different motivations and accordingly behaves differently and, moreover, the development impact and implications may also vary. It is therefore necessary to review each instrument, as well as the potential synergies between them. In addition, different motivations, characteristics and responses lead different groups of investors to investment projects, including foreign private investors (individuals, including those in diaspora, and more commonly, enterprises, funds and other entities), foreign public investors (e.g. State-owned enterprises and sovereign wealth funds (SWFs), ODA donors and other official financial institutions) and domestic private investors and public entities.

[1] A/69/700

[2] Ibid

I. External sources of development finance

5. Although foreign portfolio investments have been the largest source of development finance at the global level, FDI accounts for the majority of capital inflows to developing countries and countries with economies in transition. In principle, a vibrant national business sector and domestic private investment are the basis of growth in any economy. In practice, however, many developing and transition economies face shortages in domestic resources and therefore seek to mobilize external funds for economic development as a major aspect of development strategies. Various external sources – FDI, portfolio investments, commercial bank lending, ODA and remittances – have varied in their relative significance in the past decades. The right combination of such resources can, and has often, delivered good results in developing economies. However, with the onset of the global crisis in 2008, policymakers once again voiced concerns about the vulnerability of countries with foreign sources of development finance, especially because of the potential for their abrupt reduction or the reversal of portfolio investment. Financial crises can be accompanied by large swings in commercial bank lending and portfolio investments.

6. ODA is less prone to fluctuations, but has grown slowly. Failure to meet ODA objectives has led to some scepticism from a number of donor countries about the effectiveness of ODA in addressing the core development needs of beneficiary countries. The financial crisis affecting donor countries themselves is another reason for the slow growth of ODA. Nevertheless, ODA is undisputedly required by developing countries, in particular LDCs. The synthesis report of the Secretary-General recommends the following: "All developed countries should meet the target of 0.7 per cent of gross national income for ODA to developing countries and agree to concrete timetables to meet ODA commitments, including the Istanbul commitments to the LDCs of 0.15 per cent of gross national income by 2015".[3] ODA should be better targeted, more efficient, more transparent and, where possible, used to leverage additional resources.

7. In contrast, FDI has proved to be less volatile and more resilient to crises than other forms of external financing. The relative stability of FDI flows can be statistically shown by their lower standard deviation compared to other external resource flows (see table 1), though they have become more volatile in recent years, as detailed in this chapter. More importantly, FDI flows have implications for a host country's balance of payments, savings, investment, export–import gap and overall macroeconomic management. FDI flows are also seen as a principal channel for the transfer of technology to developing countries, technology spillovers and as a boost to economic growth through employment creation, integration in value chains and enhancement of production and export capacities.

Table 1

Relative standard deviation in capital flows by type during the period 1990–2013
(Deviation value)

Type of flow	*World*	*Developed countries*	*Developing countries*	*Countries with economies in transition*
FDI	0.637	0.640	0.760	1.138
Portfolio investment	0.651	0.664	1.037	2.323
Other investment	1.445	1.583	1.590	1.511
Total	0.752	0.811	0.917	1.142

Note: Other investment includes loans from commercial banks, official loans and trade credits.

Source: UNCTAD secretariat calculations, based on data on FDI from UNCTADStat, available at http://unctadstat/EN/Index.html, and on portfolio investment and other investment from the international financial statistics database of the International Monetary Fund, available at http://www.imf.org/external/data.htm.

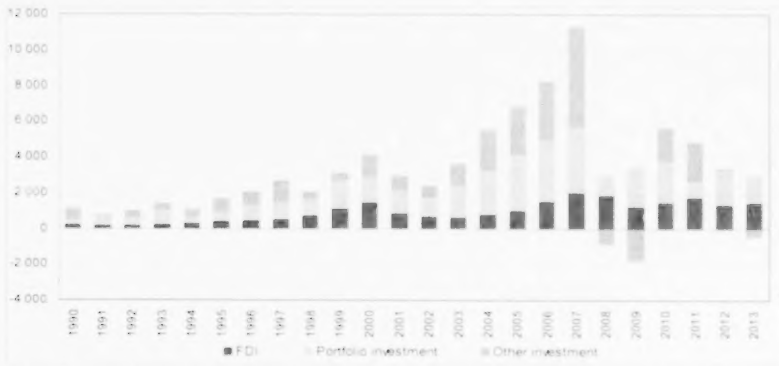
[3] Ibid.

8. Total global external capital flows (FDI, portfolio investment and other investment) declined in 2013 to $2.4 trillion, one quarter of the pre-crisis level during the period 2006–2007 and less than 20 per cent of all domestic and foreign investments. A sharp fall during the period 2008–2009 reflected the global financial and economic crisis, while the rise of external capital flows before this period was explained by rapid growth in gross domestic product in both developed and developing countries and by financial liberalization. At the global level, portfolio investment has been larger in absolute values than any other capital flow in most years, while other investments (i.e. international bank loans) grew more rapidly until 2007 (see figure 1). Although all components of private capital flows declined sharply during the period 2008–2009, the most dramatic fall took place in other investments (i.e. bank loans), reflecting the broader crisis of confidence during that period. The year 2010 brought a rise in capital flows, due to the reversal of this investment component (i.e. bank loans). However, the current crisis – reinforced in 2012, in particular in Europe – caused another dip in capital flows. It is essentially bank loans that contribute to dampening the level of capital flows. This type of investment also further lowered total external capital flows in 2013 because of negative flows (i.e. more loan payments than new loans).

Figure 1

Global external capital flows, 1990–2013

(Billions of dollars)



Note: Data are shown in the standard balance of payments presentation, i.e. on a net basis.

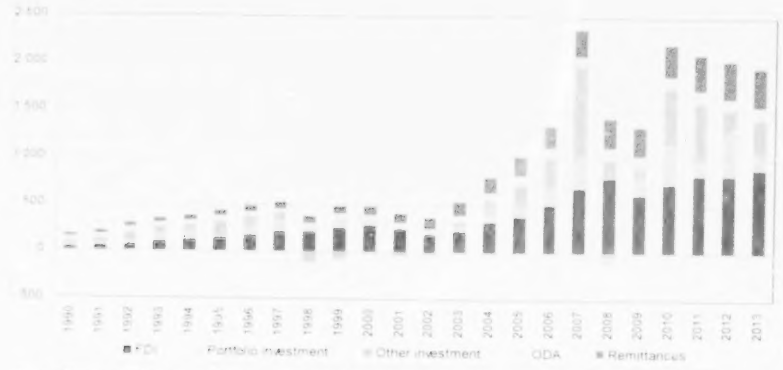
Source: UNCTAD secretariat calculations, based on data on FDI from UNCTADStat and on portfolio investment and other investment from the International Monetary Fund.

9. Developing countries and countries with economies in transition differ from developed countries in the dynamics of their external sources of finance. The composition of external financing in developing countries has fluctuated substantially in the past 15 years, although FDI accounted for the bulk of the total in most years (see figure 2). All private capital flows fluctuated, following closely the booms and busts of the economy in general. Including ODA and remittances, development finance to these regions amounted to $2 trillion in 2013.

Figure 2

External development finance to developing countries and countries with economies in transition, 1990–2013

(Billions of dollars)



Note: Data are shown in the standard balance-of-payments presentation, i.e. on a net basis.

Source: UNCTAD secretariat calculations, based on data on FDI from UNCTADStat, on portfolio investment and other investment from the International Monetary Fund, on ODA from the Organization for Economic Cooperation and Development and on remittances from the World Bank database, available at http://data.worldbank.org/.

10. Global economic growth and the pursuit of sound economic policies by many developing and transition economies generated record levels of private capital flows until 2007. Transnational corporations from developed countries diversified their foreign assets to developing and transition economies, capital market investors expanded their presence in emerging economies and commercial banks also refocused their activities on developing and transition economies.

11. The global economic slowdown that started in 2008, accentuated by the financial crisis, dampened all foreign capital flows to developing and transition economies during the period 2008–2009. However, there were hopes that these regions would prove relatively immune to the global turmoil, and flows recovered, even approaching the 2007 peak, before falling again in 2012. The fall during the period 2012–2013 raised concerns, as the decline of capital flows slowed progress towards the attainment of the Millennium Development Goals in many countries, especially LDCs. It also tempered discussion of finance needs for sustainable development goals during the period 2013–2015, leading to the Third International Conference on Financing for Development.

12. However, the impact of the financial crisis on various capital flows in developing and transition economies differed. Portfolio investment was most affected, as large amounts of such investments were wiped out by plunging share prices and the collapse in the market capitalization of stock exchanges. Because FDI was less affected, its share in external financing for developing and transition economies grew, from 34 per cent during the period 2003–2007, before the crisis, to 42 per cent during the period 2008–2013, after the crisis, and to 53 per cent during the period 2008–2009, the two years immediately after the crisis. Developing and transition economies are today leading the recovery of global FDI, thanks to their relatively quick economic recovery and burgeoning South-South linkages.

13. FDI inflows, together with other external development finance (including portfolio investment, other investment, ODA and remittances), make important contributions to the financing needs of developing countries (see figure 2). In recent years and during the period of financial and economic crisis, FDI inflows remained the most important and stable source of external financing for developing countries.

14. FDI inflows to developing countries have risen without interruption in recent years, except in 2009, with net inflows as reported in the balance of payments reaching a high of $780 billion in 2013. Reflecting quantitative easing in developed countries, net flows of portfolio capital also rose during the period 2012–2013. In contrast, other investments, including bank loans, and official transfers to developing countries such as ODA, remain at lower levels.

15. The steady increase of FDI to developing countries in the past decades has not only changed the structure of external financing for their economies but also raised the importance of FDI in overall capital formation. Long-term forces in host countries attracting FDI, such as positive and relatively high economic growth rates and growing middle-income populations, as well as established networks of international production in the developing world, counteract and exceed short-term forces such as low export demand and low commodity prices, which exert a downward influence on FDI flows. The relative resilience of FDI flows is also due to supply factors such as the following: long-term nature of FDI projects, which means they are less affected by short-term considerations; ability of transnational corporations to raise financial resources outside the financial sector, including in-house; need to consolidate the industries most affected, such as finance, consumer products, etc.; and business opportunities in niche industries, such as certain parts of information and communications technology and business services, that continue to attract increased FDI.

16. However, despite the importance of FDI as a source of financing for development, concerns about its overall rising volatility remain, as more liquid subcomponents assume a greater share of FDI flows compared to equity. Although it is much less volatile than portfolio and other investments, such as commercial loans and trade credits, as shown in table 1, FDI has become more volatile in recent years for several reasons, including the following:

- FDI flows do not necessarily translate into an equivalent expansion of productive capacity. For example, a focus on mergers and acquisitions may increase amounts of cash reserves rather than capital expenditures in new productive capacity in foreign affiliates. Similarly, direct investments in new greenfield investment projects may be reduced. There can be considerable differences between FDI flows and capital expenditures by foreign affiliates. For example, in 2010, United States of America FDI outflows were some $300 billion, but capital expenditures by United States foreign affiliates were only $167 billion, just half of total FDI flows.

- The relative share of equity investment has declined in the last 10 years, especially in developed countries. Some of the decline is structural, for example due to a reduced need for parent financing in the presence of alternatives such as local financing, the availability of investment funds, etc.

- FDI composition is changing, with a shift from equity to debt components and reinvestment of earnings. For some 20 developed countries, equity investment accounted for less than one quarter of total FDI outflows in 2013, compared with nearly half until 2011.

- In contrast to equity, the debt and reinvestment components of FDI are potentially more volatile. Thus, while FDI overall tends to be more constant and long term in orientation, the short-term nature of intracompany loans and reinvested earnings may lead to FDI behaving to some extent in a manner similar to portfolio investment.

- Investments in special-purpose entities and tax havens are normally transitional in nature. For instance, tax havens in the Caribbean alone accounted for 7 to 8 per cent of global FDI inflows in 2013. In addition, in part connected to the drying up of quantitative easing policies, portfolio capital and other hot money has been flowing

out of large emerging economies, contributing to exchange-rate depreciation, which may discourage new FDI or dissuade existing investors from repatriating capital.

Policy issues for consideration

17. There are a number of potential external sources of development finance for investing in sustainable development goals, although FDI is currently the largest and most stable source in developing countries and countries with economies in transition. In terms of specific sectors related to sustainable development goals, which potential sources of financing and investment are the most appropriate? Relevant factors in considering this question include the following:

- Characteristics of sectors related to sustainable development goals and the sources
- Differences between developing countries, including LDCs, landlocked developing countries and small island developing States
- Trends in flows by source and the relevant characteristics, motivations and propensities of each (further detailed in chapter 2 and chapter 3)
- Degree to which external sources invest directly in developing countries versus supplying finance and other resources to domestic public or private sector investors
- Nature of investment projects, including public–private partnerships (PPPs)

18. Lessons learned from country experiences may guide decisions on the above, including in terms of the following:

- Building an investment climate conducive to financing and investing in sustainable development goals, while safeguarding public interests
- Establishing new incentive schemes and a new generation of investment promotion institutions to effectively harness external sources

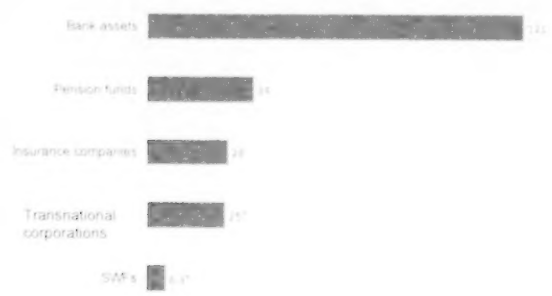
II. Mobilizing external sources of financing for sustainable development: The main actors

19. The global financial system, its institutions and actors, can mobilize capital for investment in sustainable development goals. There is a wide range of prospective private sector sources of development finance (see figure 3). The extent to which such finance is made available depends on the propensity of each source to be used for investment and its comparative advantages for specific types of projects, as detailed in this chapter.

Figure 3

Relative sizes of selected potential sources of investment, 2012

(Value of assets, stocks and loans in trillions of dollars)



Notes: a = 2014 value. This figure is not exhaustive but seeks to list some key actors and sources of finance. The amounts for assets, stocks and loans indicated are not equivalent, in some cases overlap and cannot be added.

Source: UNCTAD, 2014, *World Investment Report 2014 — Investing in the Sustainable Development Goals: An Action Plan* (New York and Geneva, United Nations publication).

Banks

20. Flows of cross-border bank lending to developing countries were roughly $325 billion in 2013, making international bank lending the third most important source of foreign capital after FDI and remittances. Banks are an important source of project financing that can be used to fund projects relevant to sustainable development goals. The implementation of the Equator Principles — a risk management framework that helps determine, assess and manage environmental and social risk — can also help to ensure that bank lending contributes to sustainable development goals.

21. State-owned banks and similar financial institutions can be effective in targeting specific sectors, for example, infrastructure and public services. Today, State-owned financial institutions account for 25 per cent of total assets in banking systems around the world and the capital available in such institutions in developing countries can be used both for investment in sustainable development goals directly and to leverage funds and investment from the private sector.

Pension funds

22. UNCTAD estimates that pension funds have at least $1.4 trillion of assets invested in developing markets and the value of developed-country assets invested in the South is growing, in addition to the value of pension funds based in developing countries, which are predominantly invested in each country's own domestic market. Pension funds recognize infrastructure investment as a distinct asset class and there is the potential for future investment by pension funds in more illiquid forms of infrastructure investment. Lessons may be learned from some countries, including Australia and Canada, that have been successful in packaging infrastructure projects specifically to increase investment by pension funds. In both countries, infrastructure investment makes up some 5 per cent of pension fund portfolios.

Insurance companies

23. Insurance companies have long-term liabilities (in the life insurance industry), are less concerned about liquidity and are increasingly prepared to invest in infrastructure, albeit predominantly in developed markets. One study suggests that insurance companies currently allocate an average of 2 per cent of their portfolios to infrastructure, although this

increases to more than 5 per cent in some countries.[4] Insurers may also invest in areas such as climate change adaptation, which would result in savings from fewer insurance claims and lower insurance premiums in the long term.[5] The insurance industry is committed to mainstreaming economic, social and governance goals into its activities and raising awareness of the impact of new risks on the industry, for example through the Principles for Sustainable Insurance of the United Nations Environment Programme Finance Initiative.

Transnational corporations

24. With $7.7 trillion currently invested in developing economies and with some $5 trillion in cash holdings, transnational corporations offer a significant potential source of finance for investment in sectors related to sustainable development goals in developing countries (further detailed in chapter 3).

Sovereign wealth funds

25. Although 80 per cent of SWF assets are owned by developing countries, more than 70 per cent of direct investments by SWFs are currently in developed markets and a high proportion of their total assets under management may also be invested in developed markets. SWFs can offer a number of advantages for investment in sectors related to sustainable development goals in poor countries, not least because their finance is unleveraged and their investment outlook is often long term. For example, 60 per cent of SWFs already actively invest in infrastructure, in particular in sectors such as water and energy.[6] Some SWFs and public pension funds have non-profit driven obligations, such as social protection or intergenerational equity; they also represent a form of public capital that could be used for the provision of essential services in low-income communities.

Foundations, endowments and family offices

26. Some estimates put total private wealth at $46 trillion, although a third of this figure is estimated to be incorporated in other investment vehicles, such as mutual funds.[7] The private wealth management of family offices stood at $1.2 trillion and foundations and/or endowment funds at $1.3 trillion in 2011.[8] From this source of wealth, it may be possible to mobilize greater philanthropic contributions to long-term investment and investments for sustainable development through the fund management industry. In 2011, the United States alone was home to more than 80,000 foundations with $662 billion in assets, representing over 20 per cent of estimated global foundations and endowments by assets, although much of this was allocated domestically.

Venture capital

27. The venture capital industry is estimated at $42 billion.[9] Investors seeking to allocate finance through venture capital often take an active and direct interest in their investments. In addition, they might provide finance from the start or early stages of a commercial venture and have a long-term investment horizon for the realization of a return on their

[4] Preqin, 2013. *The 2014 Preqin Sovereign Wealth Fund Review* (London).

[5] Climatewise, Munich Climate Insurance Initiative and United Nations Environment Programme Finance Initiative, 2013. Global insurance industry statement, presented at the Caring for Climate Business Forum at the Conference of the Parties of the United Nations Framework Convention on Climate Change, Warsaw, 19 November, available at http://www.climatewise.org.uk/global-insurer-statement/ (accessed 29 January 2015).

[6] Preqin, 2013.

[7] TheCityUK, 2013. Fund management, available at http://www.thecityuk.com/research/our-work/reports-list/uk-fund-management-2014/ (accessed 29 January 2015).

[8] World Economic Forum, 2011. *The Future of Long-term Investing* (New York and Geneva).

[9] Ernst and Young, 2013. Turning the corner: Global venture capital insights and trends, available at http://www.ey.com/GL/en/Services/Strategic-Growth-Markets/Global-VC-insights-and-trends-report-2013 (accessed 29 January 2015).

initial capital. This makes venture capital more characteristic of a direct investor than a short-term portfolio investment.

Policy issues for consideration

28. In mobilizing development finance from external sources, the relevant characteristics, motivations and propensities of the principal actors need to be taken into account, including the following among institutional investors:

- Pension funds are attracted to longer term opportunities, such as in infrastructure
- Insurance companies have some incentive to support climate-change mitigation and adaptation projects
- For most portfolio and/or institutional investors, bankable projects are a valuable incentive

29. In this respect, lessons learned from country experiences may support policymaking and guide investors towards specific projects related to sustainable development goals, such as the following:

- Setting up a portfolio of bankable projects
- Developing new rating methodologies for investment in sustainable development goals
- Building and supporting go-to-market channels for investment projects related to sustainable development goals in financial markets

30. At the same time, policies may be required to reorient the propensities and behaviour of sources of finance and investment, such as the following:

- Building or improving pricing mechanisms for externalities
- Realigning incentives in capital markets
- Widening the scope and content of principles to guide investment behaviour
- Establishing effective instruments for measuring and monitoring investments

III. Enhancing partnerships between external and internal sources of finance and investment

31. Mobilizing international resources for development was set as one of the objectives in the Monterrey Consensus[10] to meet the Millennium Development Goals and will be reiterated at the Third International Conference on Financing for Development with an agreed and ambitious course for sustainable development financing to meet the future sustainable development goals. This mobilization will require public and private sectors, both domestic and foreign, to work in partnership and concert.

32. Although private capital flows have an increasingly significant role in financing for development, the public sector is the dominant actor in many sectors related to sustainable development goals. However, the public sector alone cannot attain the level of investment

[10] The Monterrey Consensus was adopted by the First International Conference on Financing for Development, a summit-level meeting sponsored by the United Nations to address key financial and related issues pertaining to global development, held in Mexico in March 2002. Among other things, it called for mobilizing and increasing the effective use of financial resources needed to fulfil internationally agreed development goals in the context of a holistic approach to the challenges of financing for development.

required for the envisaged sustainable development goals. As Governments in developing countries and countries with economies in transition operate on limited budgets, especially in countries experiencing rapid population growth and urbanization, they need to tap into the private sector, both domestic and foreign, for capital, technology and the expertise to finance, develop and manage public-sector projects in infrastructure and other areas. Partnerships between public, private and foreign investors have increasingly been recognized as an effective and appropriate mechanism for managing the complexity of the development challenges facing developing countries and for meeting the Millennium Development Goals. This has also been clearly articulated with regard to all sectors related to sustainable development goals. Significant areas in which such partnerships might be the most effective include promoting infrastructure development, mitigating climate change and increasing agricultural production, as detailed in the box.

Typical sectors related to sustainable development goals that can effectively utilize partnerships among different investors

Infrastructure

A good example of industries in which a close association between foreign and domestic investment – either public or private – can substantially help in meeting local development needs is seen in the infrastructure sector.[11] As the investment requirements of developing countries in infrastructure far exceed the amounts that can be financed by the public sector, Governments have opened up infrastructure industries and services to greater participation by the private sector, including transnational corporations. Fiscal space limitations and debt sustainability considerations have led many Governments in developing countries to reassess the potential role of foreign and domestic private-sector financing of current and future public investment needs in infrastructure.

Climate change

There is considerable potential for interaction between public and private investments in mitigating the effects of climate change, especially in such areas as renewable power generation. Given that renewable energy technologies are not yet price-competitive with traditional more carbon-intensive ones, their use by private firms often requires some type of PPP, which can take a number of forms but typically includes assurances by Government of access to the power grid and preferential rates for the electricity produced, in addition to long-term purchase agreements and financing at concessional rates.[12]

Agriculture

The expansion and revitalization of agricultural production is crucial for developing countries, both to meet rising food needs and to lay the foundations for economic diversification and development. Both foreign and domestic investments, public or private, can contribute to the development of the agriculture sector, and there is considerable potential for interaction between the two. There are many successful cases of PPPs in agricultural production in developing countries, especially in areas such as improving agricultural technologies and inputs, research and development and providing extension

[11] Examples of PPPs involving foreign and local partners worldwide include, among others, hydropower stations in Cambodia, Port Said and Marsa Allam in Egypt and Tangier Mediterranee in Morocco. PPPs involving public and private partners include the Mbombela water concession in South Africa, the Enfidha-Hammamet Airport Project in Tunisia and the Bujagali Hydropower Project in Uganda.

[12] Examples include a build, own, operate and transfer wind-generation project in Costa Rica with GDF Suez of France. In Brazil, the Brazilian Development Bank approved R$72 million ($35 million) in financing for the Pedra do Sal wind farm in cooperation with Econergy International, a subsidiary of GDF Suez.

services to help farmers move from subsistence to market-oriented production.[13]

Foreign and domestic investors, whether companies, individual farmers or public investors, may cooperate in agricultural production and at different stages of the food value chain. For instance, while domestic investors may undertake production, foreign investors may focus on food processing or distribution. Contract farming is a typical component of such cooperation.

33. Involvement of the private sector in sectors related to sustainable development goals should be based on a set of guiding principles that include balancing liberalization with the right to regulate, balancing the need for attractive risk-return rates with the need for accessible and affordable services, balancing a push for private investment with the push for public investment and balancing the global scope of sustainable development goals with the need to make a special effort in LDCs.[14]

34. Leveraging external sources for investment in local economies provides a viable and useful means for supporting development. However, synergizing different sources of investment is a formidable challenge. Each external source has specific motives and thus reacts to economic situations differently. It is vital to recognize such differences when leveraging potential synergies for development purposes.

35. Used effectively and under the right conditions, other capital (e.g. bank loans) can boost the level of investment by direct investors, both local and foreign, facilitate its operation on a day-to-day basis or do both. However, when not used correctly (for example, if an FDI enterprise becomes overly exposed to debt or derivatives or when banks lend excessively without proper due diligence to domestic public or private enterprises), such capital can provoke or worsen a crisis.

36. Public and private entities directly investing in projects related to sustainable development goals (e.g. in infrastructure), including transnational corporations, can potentially partner with various types of external capital from a wide range of sources, such as the following five, to synergistic effect (see chapter 4 for examples of innovative financing).

Portfolio investment

37. Generally speaking, portfolio investors do not have a day-to-day management interest in how an enterprise is run. Such funds can come and go very quickly. Portfolio equity investors, who hold less than 10 per cent of shares or the equivalent, may keep the investment over the long term. Institutional investors, such as SWFs or pension funds, are typical examples. In their case, the motivation to invest is not simply to make a quick return and move on but, as with FDI, to seek a return over the longer term. In some cases, portfolio investors hold a seat on the board of directors. For instance, Government Pension Fund Global of Norway is considering this kind of arrangement. This type of portfolio investment can thus reinforce the type of long-term investment required to meet the challenge of sustainable development.

Official development assistance

38. ODA can catalyse FDI by improving the conditions needed for direct investments to flourish. This can be done directly by investing in or jointly with enterprises, including

[13] Examples include a PPP arrangement for vegetable oil production in Uganda with Wilmar International of Singapore. PPPs in China include, with Syngenta of Switzerland, involvement with the Hubei Biopesticide Engineering Research Centre and the Shanghai Institute of Organic Chemistry for the development of crop protection innovations. In India, Syngenta has PPPs that support improvements to farming practices and the livelihoods of poor smallholders.

[14] UNCTAD, 2014.

through FDI, or indirectly by promoting conditions in which such enterprises can thrive. To meet its objectives, ODA must be applied carefully, in order that, for example, increasing FDI crowds in domestic investment rather than crowding it out. ODA, which is motivated primarily by development concerns, rather than the business interests of the donor country, supports foreign investment for development in several ways. At one end of the scale of investment, PPPs are becoming increasingly popular in developing countries, where FDI synergizes with foreign and domestic public and private investment to run large-scale projects that otherwise would not be viable. At the other end of the scale, donors, through development institutions, can behave in a manner similar to FDI investors, especially investors in domestic small and medium-sized enterprises. Their main objective is to provide additional finance as a means to boost investment and cover risk. In this way, they can also facilitate projects that otherwise would not be viable. In such cases, they invest in individual projects. ODA in its many forms can thus boost private investment and promote its synergies with other types and sources of investment and this has beneficial results in helping countries move towards meeting the Millennium Development Goals and future sustainable development goals. Particularly in a climate of budget cuts, linking ODA to FDI is important to enhance synergies between them.

Commercial bank loans

39. Commercial bank loans provide funds directly to an investor to expand a business, purchase new equipment, upgrade existing facilities, boost working capital or grow inventory. An investor might have sufficient internal resources but opt to take out a commercial loan in order to, for example, retain sufficient funds to cover contingencies and reduce taxable income by increasing debt payments. Bank loans can therefore directly promote more direct investment by local or foreign investors by adding to the investment or indirectly by ensuring the smooth operation of an activity. In this respect, the role of commercial banks is critical. When taking a long-term view, banks may sit on the board of directors of an enterprise, exert a direct interest in its management and thus be motivated to ensure its long-term prosperity. This contrasts with a more laissez-faire approach in which banks are primarily interested in a return on their money. Bank loans may thus stabilize finance for enterprises in times of crisis.

Supplier credits

40. Supplier credits are normally provided by partner firms or intermediate banks and are primarily but not always short-term. Such credits are especially important to investing enterprises that engage in trade or depend on importing inputs; the global trading economy has thus relied heavily on them. During the financial crisis, supplier credits took a severe hit, which had a huge impact on trade and the activities of even healthy enterprises directly and indirectly involved in trade. An environment conducive to trade credits is therefore important to sustain investment and economic activity.

Remittances

41. Workers' remittances are payments and transfers from foreign workers to their countries of origin. With some $370 billion in remittances to labour-sending developing countries and countries with economies in transition in 2013, income transfer has grown to a significant amount: almost half of FDI flows and over three times as high as total ODA received by developing countries. As a source of development finance in labour-sending countries, remittances are still limited because they flow directly to households and are essentially used for consumption. However, their wide distribution throughout the economy means they can have a much broader effect than capital flows and even official flows, where the recipients are targeted, more limited and geographically concentrated. When emigrants return home, they may become important human resources, as they typically acquire technological skills in labour-receiving countries. Furthermore, emigrants and short-term workers also invest directly in their countries of origin (see table 2).

Table 2

Migrant remittances and diaspora acquisitions, 1990–2013

(Millions of dollars)

	Annual averages									
Recipient region	*1990–1994*	*1995–1999*	*2000–2004*	*2005–2009*	*2010*	*2011*	*2012*	*2013*
Developing countries	68 855	93 949	131 895	246 192	331 202	348 053	365 619	374 702
Africa	10 368	10 868	14 146	41 414	51 911	56 408	60 851	60 364
Developing Asia	20 215	37 044	69 280	145 764	201 527	230 597	242 957	251 351
South-East Asia	6 793	8 638	14 792	31 898	41 537	44 745	48 827	51 433
Latin America and the Caribbean	8 159	15 062	30 804	57 491	76 050	59 434	59 962	63 124
Countries with economies in transition	1 193	4 777	6 852	24 050	30 319	36 401	37 598	42 152
Developed countries	53 867	43 599	60 329	99 737	111 978	122 111	118 272	125 084
World total	**73 915**	**112 119**	**178 876**	**369 978**	**453 499**	**506 565**	**521 489**	**541 938**

Source: UNCTAD secretariat calculations, based on data from the World Bank.

Investments by diaspora

42. Investments by permanent emigrants and refugees range from portfolio investment to FDI and financial investment (e.g. bank deposits) in their countries of origin. As long as emigrants invest in fixed assets over other assets, they make a direct contribution to productive investment. Small enterprises managed by families and relatives typically benefit from such investments. Relatives and others (e.g. friends) in countries of origin may have access to emigrants' bank deposits and turn them into productive investments.[15] Based on data on cross-border mergers and acquisitions by diaspora members in their countries of origin, their investment in developing countries in 2013 is estimated at $3.1 billion, accounting for 3 per cent of the value of all cross-border mergers and acquisitions in developing countries. The value of investment is still small – one hundredth of all remittances in recent years – but members of diaspora, perhaps more than foreign workers per se, can also contribute technical, managerial and other skills.

Policy issues for consideration

43. In order to increase the absolute level of investment funds for sectors related to sustainable development goals and to multiply their effectiveness and impact, partnerships between different external and internal sources of development finance and investment are desirable, to benefit from and synergize their unique attributes. Some combinations of funds and sources might be more effective for specific sectors or projects related to sustainable development goals. What country experiences may be drawn on to support policymaking with respect to partnerships? Related policies might entail, among others, the following:

- Use of ODA funds as base capital or junior debt in order to share risks or improve risk-return profiles for private-sector funders
- Wider use of PPPs for projects related to sustainable development goals to improve risk-return profiles and address market failures

[15] Such amounts are called personal transfers and are recorded in the income account, not necessarily in the capital account, in a balance of payments.

- Advance market commitments and other mechanisms to provide more stable and reliable markets for sectors related to sustainable development goals
- Use of public development funds (e.g. provided by development or multilateral banks) as seed capital or guarantees to raise further private sector resources in financial markets

44. An important aspect of partnerships is that they are not only about financing; each partner has unique characteristics and attributes, including technological assets, managerial and professional skills or knowledge of the relevant sector or project. These attributes and skills can be quite diffuse, and another area of consideration is thus how to bring such attributes together into a mutually feasible partnership, especially in terms of non-traditional sources of know-how in developed countries (e.g. diaspora members, retired individuals and career-gap volunteers).

IV. Innovative financing mechanisms for sustainable development: Maximizing benefits from development finance

45. Innovative financing solutions to support sustainable development, including new financial instruments, investment funds and financing approaches, have the potential to contribute significantly to the realization of sustainable development goals. To date, however, they have remained relatively small in scale and limited in scope. Sources of innovative finance may operate on the margins of capital markets and, when linked to discretionary donor budgets, are not always stable. Prevalent examples of sources of innovative finance that could be scaled up include the following seven sources.

Green bonds and development impact bonds

46. The current estimated market value of green and/or climate bonds ranges from $86 billion to 174 billion and various proposed development impact bonds are likely to raise this further.[36] These bonds are appealing because they ensure a safer return for investors, many of which are backed by donors or multilateral banks, and also because they are clearly defined sustainable projects or products. The proceeds are often credited to special accounts that support loan disbursements for projects related to sustainable development goals (e.g. projects related to development or climate change adaptation and mitigation). These instruments were often the domain of multilateral development banks, but more recently, a number of transnational corporations have issued green bonds, such as EDF Energy, Toyota and Unilever.[37]

Impact investing

47. Impact investment can be a valuable source of capital, especially to finance the needs of low-income developing countries or for products and services aimed at vulnerable

[36] According to the World Economic Forum, the size of the green bond market is estimated at $174 billion by HSBC and the Climate Bonds Initiative, under a definition that looks beyond explicitly labelled green and/or climate bonds, while other estimates, including those from the Organization for Economic Cooperation and Development, place the market nearer to $86 billion (World Economic Forum, 2013. *The Green Investment Report* (Geneva)).

[37] EDF Energy undertook a €1.4 billion issue to finance investment in solar and wind energy. Toyota raised $1.75 billion for the development of hybrid vehicles and Unilever raised £250 million for projects to reduce greenhouse gas emissions, water usage or waste within its supply chain (S Mulholland, 2014. Toyota said to issue $1.75 billion of green asset-backed bonds. *Bloomberg*, 11 March. *Reuters*, 2013. Successful launch of EDF's first green bond. 20 November. *The Economist*, 2014. Green bonds. Spring in the air. 22 March; and Unilever, 2014. Unilever issues first ever green sustainability bond. 19 March).

communities. Estimated impact investments presently range from $40 billion to $100 billion, depending on which sectors and types of activity are defined as constituting impact investing. Similarly, the estimated future global potential of impact investing varies from the relatively modest to up to $1 trillion in total.[17] Impact investors include aid agencies, non-governmental organizations, philanthropic foundations and wealthy individuals, as well as banks, institutional investors and other types of firms and funds. A joint study of impact investment by UNCTAD and the United States Department of State in 2012 observed that over 90 per cent of impact investment funds were still invested in the developed world, mostly in social impact and renewable energy projects. In developing regions, the largest recipient of impact investing is Latin America and the Caribbean, followed by Africa and South Asia.[18] This is because there are a number of constraints on the expansion of impact investing in developing countries; some are supply-related constraints, such as the lack of a common understanding of what impact investment entails, while others are demand-related constraints, such as a shortage of high-quality investment opportunities with experience or the lack of innovative structures to accommodate the needs of portfolio investors.[19]

Vertical funds

48. Vertical, or financial intermediary, funds are dedicated mechanisms that allow multiple stakeholders (e.g. Government, civil society, individuals and the private sector) to provide funding for previously specified purposes, often to underfunded sectors such as disease eradication or climate change mitigation. Funds such as the Global Environment Fund and the Global Fund to Fight AIDS, Tuberculosis and Malaria have now reached a significant size.[21] Similar funds could be created in alignment with other specific focus areas of sustainable development goals in general. For example, the Africa Enterprise Challenge Fund has been used as a vehicle to provide preferential loans for the purpose of developing inclusive businesses.

Matching funds

49. Matching funds, whereby the public sector commits to contributing an equal or proportionate amount, have been used to incentivize private sector contributions to development initiatives. For example, under the Gavi Matching Fund, the Department for International Development of the United Kingdom of Great Britain and Northern Ireland and the Bill and Melinda Gates Foundation have pledged about $130 million combined to match contributions from corporations, foundations, customers, members, employees and business partners (see http://www.gavi.org/funding/give-to-gavi/gavi-matching-fund/).

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[17] N O'Donohoe, C Leyonhufvud and Y Saltuk, 2010, Impact investments: An emerging asset class, J.P. Morgan Global Research, available at https://www.jpmorgan.com/pages/detail/1290554691462 (accessed 29 January 2015).

[18] R Addis, J McLeod and A Raine, 2013, Impact – Australia: Investment for social and economic benefit, Australian Government Department of Education, Employment and Workplace Relations.

[20] A number of initiatives are under way to address these constraints and expand impact investment, including the Global Impact Investing Network and the Impact Reporting and Investment Standards catalogue, the Global Impact Economy Forum of the United States Department of State, the Global Impact Investment Ratings System, the United Kingdom Impact Programme for investment in sub-Saharan Africa and South Asia and the Group of 8 Social Impact Investment Task Force.

[21] The Global Environment Fund – a partnership between 182 countries, international agencies, civil society and private sector – has provided $11.5 billion in grants since its creation in 1990 and leveraged $57 billion in co-financing for over 3,215 projects in over 165 countries. The Global Fund to Fight AIDS, Tuberculosis and Malaria has secured pledges of about $30 billion since its creation in 2002 and over 60 per cent of the pledges have been paid to date (World Bank, 2013, *Financing for Development Post-2015* (Washington, D.C.)).

Front-loading aid

50. In addition to catalysing additional contributions, the public sector can induce private sector actors to use financing mechanisms that change the time profile of development financing, through the front loading of aid disbursements. The International Finance Facility for Immunization issues AAA-rated bonds in capital markets that are backed by long-term pledges by donor Governments. As such, aid flows to developing countries that would normally occur over a period of 20 years are converted to cash immediately upon issuance. For investors, the bonds are attractive due to the credit rating, a market-comparable interest rate and the perceived socially responsible return on investment. The International Finance Facility for Immunization has raised more than $4.5 billion to date through bond issuances purchased by institutional and retail investors in a range of different mature financial markets (see http://www.iffim.org).

Future-flow securitization

51. The front loading of aid is a subset of a broader range of initiatives under the umbrella of future-flow securitization, which allows developing countries to issue marketable financial instruments whose repayments are secured against a relatively stable revenue stream. These can be used to attract a broader class of investors than would otherwise be possible. Other prominent examples are diaspora bonds, whose issuance is secured against migrant remittance flows, and bonds backed by the revenue stream from, for example, natural resources. These instruments allow developing countries to access funding immediately that would normally be received over a protracted period.

Crowdsourcing

52. It is estimated that crowdfunding platforms raised $2.7 billion globally in 2012 and were forecast to increase 81 per cent in 2013 to $5.1 billion.[22] While currently more prevalent in developed countries, crowdfunding has the potential to fund projects related to sustainable development goals in developing countries. Crowdfunding has been an effective means for entrepreneurs and businesses in developed countries that do not have access to more formal financial markets. Crowdfunding could also help dormant entrepreneurial talent and activity to circumvent traditional capital markets and obtain finance.

53. In dealing with these innovative mechanisms for finance and addressing various challenges in sectors related to sustainable development goals, investing in human resources is critical. Mobilizing resources for entrepreneurship promotion is a viable option, and is addressed in a separate note prepared by the Secretariat (TD/B/C.II/29).

Policy issues for consideration

54. To achieve scale and scope, existing and innovative financial instruments and funding mechanisms to raise resources for investment in sustainable development goals need to be supported, adapted to purpose and scaled up as appropriate. What country experiences can be drawn on to devise appropriate policies and mechanisms for doing so? Among others, consideration may be given to the following:

- Partnerships between outward investment agencies in home countries and investment promotion agencies in host countries
- Facilitation measures to support financial instruments dedicated to sustainable development goals and impact investing initiatives
- Means of implementation of policies, in order to ensure a better use of innovative mechanisms and reduce constraints on investors

[22] Massolution. 2013. The crowdfunding industry report, available at http://www.crowdsourcing.org/editorial/2013cf-the-crowdfunding-industry-report/25107 (accessed 29 January 2015).

55. Beyond policies for financing, consideration should be given to encouraging private and public sectors, both foreign and domestic, to invest better. Achieving sustainable development goals is not only about how much investment is made, but how it is implemented. For instance, investors expanding the employment of women, minorities and other excluded groups – or boosting their skills – support sustainable development through how they invest, and not only by how much.

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Entrepreneurship and sustainable development goals

Promoting entrepreneurship for development

Note by the UNCTAD secretariat

Executive summary

This note focuses on the role of entrepreneurship in sustainable development. It builds further on General Assembly resolutions 67/202 and 69/210 on entrepreneurship for development and reviews recent trends in entrepreneurship. It discusses evolving best practices on the adoption of a holistic approach to entrepreneurship policies and national strategies; the development of green, social, youth and women's entrepreneurship; and new and innovative mechanisms to ease access to finance. The note also addresses emerging issues on monitoring and measuring entrepreneurship. In particular, it discusses international initiatives to assess the success of entrepreneurship policies and monitor progress on their implementation. It outlines the main challenges in developing comprehensive and comparable data and selecting a set of core common indicators to assist policymakers and other stakeholders in their efforts to promote entrepreneurship and facilitate its impact. It also suggests issues for further elaboration, including the role of entrepreneurship in attaining the sustainable development goals and actions to be taken to enhance that role.

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Introduction

1. The importance of entrepreneurship in the context of the sustainable development goals – by creating jobs and driving economic growth and innovation, improving social conditions and helping address environmental challenges – has been reinforced by the work of the General Assembly.[1] In 2012, it adopted resolution 67/202 on entrepreneurship for development. As UNCTAD has played a key role in promoting entrepreneurship and micro-, small- and medium-sized enterprises (MSMEs) over the last two decades, the Department of Economic and Social Affairs requested that UNCTAD prepare a report to the General Assembly[2] on the implementation of this resolution, which was used as a background document for a second General Assembly resolution on entrepreneurship for development (A/RES/69/210), adopted by its sixty-ninth session in 2014.

2. In its resolutions, the General Assembly highlights the need for a comprehensive framework for entrepreneurship promotion and calls upon the relevant organizations and bodies of the United Nations system to further recognize and integrate entrepreneurship in their development policies, and in cooperation with Member States, improve regulatory environments and policy initiatives that facilitate entrepreneurship, as well as identify indicators that can be used to evaluate the success of entrepreneurship policies.

3. This note builds on the General Assembly resolutions on entrepreneurship for development. It discusses recent trends, including a shift towards a strategic and holistic approach to entrepreneurship and the development of green, social, youth and women's entrepreneurship. It also identifies access of MSMEs to finance as a key challenge in fostering entrepreneurship.

4. The note also elaborates on issues related to entrepreneurship measurement, outlining key areas that need to be considered in developing guidance on indicators to assist policymakers and other stakeholders in their efforts to promote entrepreneurship and to maximize its positive impact.

I. Entrepreneurship for sustainable development: Recent policy trends

5. There is increasing consensus that entrepreneurship is key to sustainable development and critical to poverty reduction, gender equality and environmental sustainability. Entrepreneurship policies have a multifaceted nature and linkages with other areas, such as education and skills development, technology and innovation, finance and capacity-building. To assist policymakers, UNCTAD developed the Entrepreneurship Policy Framework, which was launched during the thirteenth quadrennial conference of UNCTAD, held in Doha in 2012.

6. Along with a growing recognition of the role of entrepreneurship in sustainable development, key trends include increased attention to a holistic approach to entrepreneurship policies and their implementation, the growth of women's entrepreneurship, and youth and social entrepreneurship. There is also an ongoing search

[1] United Nations, 2009, *Doha Declaration on Financing for Development* (New York, United Nations publication 09-20901), available at http://www.un.org/esa/ffd/doha/documents/Doha_Declaration_FED.pdf, accessed 8 February 2015.

[2] General Assembly, 2014, Entrepreneurship for development, 18 August (A/69/320).

for new and innovative forms of financing to facilitate access to finance for MSMEs. Another important development is the debate about indicators to assist policymakers and other stakeholders in measuring the success of entrepreneurship policies and their impact. The following sections address these issues.

A. National entrepreneurship policies

7. There is growing recognition of the need for a holistic and systemic approach to formulating entrepreneurship policies, ensuring coordination and coherence to achieve a positive impact. Table 1 shows examples of countries that have taken such a holistic approach and have developed national entrepreneurship strategies and policies.

Table 1
Examples of national entrepreneurship policies, 2014

Region	Country	Policy
Africa	– Ghana, UNCTAD Entrepreneursip Policy Framework	National policy framework
	– Gambia (under preparation), UNCTAD-Entrepreneursip Policy Framework	National policy framework
Europe	Ireland: National Policy Statement on Entrepreneurship	National entrepreneurship strategy
Middle East	Jordan	National Entrepreneurship and Small and Medium-sized Enterprise (SME) Growth Strategy, 2014–2018
Latin America	– Chile[1]	National entrepreneurship strategy
	– Dominican Republic	
	– Colombia, reformulated	
	– Costa Rica	
	– El Salvador[2]	
	– Honduras[3]	
	– Ecuador, UNCTAD – Entrepreneursip Policy Framework[4]	

Source: UNCTAD database.

8. Table 2 shows examples of regional and subnational cooperation that include the development of regional strategies, joint projects to facilitate entrepreneurship awareness

[1] http://www.innovacion.gob.cl/2014/10/conozca-la-nueva-politica-de-emprendimiento-2014-2018-de-corfo/, accessed 8 February 2015.

[2] https://www.conamype.gob.sv/phocadownload/politica%20de%20emprendimiento%20con%20rebase.pdf, accessed 8 February 2015.

[3] http://www.presidencia.gob.hn/?tag=estrategia-de-fomento-al-emprendimiento-de-honduras, accessed 8 February 2015.

[4] http://aci.ec/web/xp/, accessed 8 February 2015.

and networking, as well as technology exchanges and skills development. The Central American Integration System (SICA) – Emprende, for example, aims to build an ecosystem across industries in eight countries in the region.[7] Each country is now tasked with adjusting the regional strategy to national realities and implementing it, formulated on the basis of five key pillars: educational system, supportive ecosystem, institutional articulation, mindset and culture, and financing.

Table 2

Examples of regional and subnational entrepreneurship policies, 2009–2014

Region	*Regional policies*	*Subnational/local policies*
Africa	2013–2022 African Development Bank Group Strategy: focus on African entrepreneurship as pillar of private sector development	City of Johannesburg Young Entrepreneurship Policy and Strategy Framework, 2009 (South Africa)
Asia	2010–2014 Association of Southeast Asian Nations Policy Blueprint for SME Development (includes an entrepreneurship development programme)	Singapore: Extension of research and development (R&D) tax deductions scheme
Europe	European Union Entrepreneurship 2020 Action Plan European Union Strategic Policy Forum on Digital Entrepreneurship	Region of Murcia (Spain) Entrepreneurial action plan and 2014 entrepreneurial municipality initiative Murcia (Municipio Emprendedor). 2012: Plan for innovation and entrepreneurship in Western Switzerland (part of Intercantonal Programme 2012–2015) (Switzerland)
Latin America	2014 Central American Region and Dominican Republic Regional SICA Entrepreneurship Strategy, SICA Emprende	Strategic entrepreneurship plan for region of Antioquia (City of Medellin, Colombia)
North America		2011 Entrepreneurship strategy for Quebec (Canada)

Source: UNCTAD database.

9. Other recent initiatives are aimed at the broader objective of developing innovation, improving the business environment and strengthening local SME sectors. In Latin America, Prodem – an Argentine research institution – reports that Chile offers the best conditions for high-growth SMEs followed by Mexico, Brazil, Costa Rica and Argentina

[7] Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

because they have adopted specific innovation policies that take into account the growth and development of SMEs.[8]

10. Start-up programmes have proliferated. These include Start-up America, Start-up Chile, Start-up Russia, Start-up Britain, Start-up Weekends worldwide and Start-up Nation-South Africa. In some cases, municipalities or regions have their own start-up programmes that often group into a network. To enhance value creation, some countries have devised scaling-up policies and monitor their progress in annual reports: Israel the Scale-Up Nation, Scale Up UK, Scale Up Europe and Scale Up America. According to these reports, entrepreneurial growth is about developing an innovation ecosystem, ensuring the growth of existing enterprises by boosting sales and marketing, and building larger firms by acquiring strategic inputs such as the right kinds of capital and suppliers. The programme Manizales-Más in Colombia has integrated these components with the assistance of Babson College (United States of America).

11. Other countries have introduced business regulation reforms to facilitate the creation of new businesses, simplified labour-related laws and taxation. According to the Doing Business Report 2015, sub-Saharan Africa has been the most successful in implementing policy reforms for a better business environment in recent years. Benin, Togo and Côte d'Ivoire implemented at least 39 reforms in 2013/2014, making it easier to start a business, obtain credit or pay taxes.[9]

B. Youth entrepreneurship

12. Youth entrepreneurship has become a priority for the development agenda of many countries that are faced with the challenge of a youth bulge and unemployment. According to the 2013 report of the Global Entrepreneurship Monitor (GEM),[10] young people are more likely to have fresh ideas and to be "born digital"; in some societies they have received more education than their parents. They are also less likely to have responsibilities such as mortgages and families, factors that generally make individuals risk averse. To tap into this potential, several countries have recently introduced policies and programmes to foster young entrepreneurs. African countries, for example, have spearheaded the introduction of entrepreneurship curricula in the secondary school systems. In Angola, 139 teachers have been trained and certified to teach entrepreneurship, and 9,800 students have taken the entrepreneurship course to date.[11] In Europe, the Entrepreneurship 2020 Action Plan has identified entrepreneurship as one of the eight key competencies that every young person should have. Box 1 reviews the policy guidance of UNCTAD in this respect.

[8] www.prodem.uni-graz.at/blog/2014/10/esed_english/, accessed 8 February 2015.

[9] World Bank, 2014, *Doing Business 2015: Going Beyond Efficiency* (Washington, D.C.: World Bank).

[10] JE Amoros, N Bosma and Global Entrepreneurship Research Association, 2014, *Global Entrepreneurship Monitor: Global Report 2013*, available at http://www.gemconsortium.org/docs/download/3106, accessed 8 February 2015.

[11] United Nations Industrial Development Organization, 2014, Fostering entrepreneurial youth, Report of the Meeting held on 11–13 November 2014, Vienna.

Box 1. Encouraging young entrepreneurs

To respond to a growing focus on youth entrepreneurship, UNCTAD, in collaboration with the Commonwealth Secretariat, issued a new document entitled "Promoting Youth Entrepreneurship: Policy Guidance", aimed at supporting policymakers to design policies that will unleash the potential of youth entrepreneurship. Its key recommendations are listed below:

For youth entrepreneurship to have a broader impact on job creation and in promoting sustainable development, policymakers can enhance the regulatory environment by addressing regulatory barriers that hinder young entrepreneurs from starting up, introducing online registration and simplified regulations, minimizing the stigma surrounding business failure and facilitating restarts. Orienting business development services to provide services to young entrepreneurs is essential to ensure that they obtain adequate support. The public and private sectors, as well as other relevant partners, can come together to improve education and skills development, and better align the skills acquired by young people with labour market demands. Building the capacity of teachers to inculcate entrepreneurship skills among students is critical. In addition, there is a need to strengthen the capacity of vocational training and apprenticeship.

Policymakers can take a leadership role in supporting technology and innovation by providing incentives that will encourage private sector investment. They could also promote the establishment of favourable regulatory frameworks and innovation policies, and investment in higher education and training, and R&D. Investments need to be made in technological infrastructure to set the foundation for a thriving digital economy, provide the impetus for the spread of innovation and ensure that young people have access to, knowledge of, and the competencies and skills to exploit technology and create commercial products and services.

In addition to undertaking financial reforms, governments, with the support of entities in the financial sector and non-governmental organizations (NGOs), could explore how to improve financial inclusion. Collateral requirements, high banking fees and lack of financial literacy are key bottlenecks for young people. Proposed measures include the establishment of guarantees, financing supported by capacity-building and special mobile money schemes.

Young people need to be partners and collaborators in youth entrepreneurship. To assume this role, a concerted effort on the part of government, NGOs and the private sector is required to develop platforms to engage young people and promote the development of youth entrepreneurship networks and associations that advocate on behalf of young entrepreneurs.

Source: UNCTAD, forthcoming.

C. Women's entrepreneurship

13. Growing attention is being given to women's entrepreneurship as part of the empowerment agenda and as a means to expand opportunities and benefit from their engagement in productive (self-) employment. According to available estimates, approximately one fourth to one third of the world's formal sector enterprises are owned and operated by women. However, studies also suggest that in some countries, women entrepreneurs experience more difficulties than men in starting and expanding their businesses, particularly due to cultural norms and social attitudes. Statistics also show that

women are less likely than men to start businesses and grow their small firms into larger enterprises.[12]

Box 2. Celebrating women entrepreneurs

Every other year, UNCTAD grants the Empretec Women in Business Award to women entrepreneurs who have benefited from Empretec training. The award has had a strong impact on creating business opportunities and positive role models for aspiring women entrepreneurs. The three winners of the 2014 award, held during the World Investment Forum, reported the following:

- The winner of the gold award, Lina Khaliteh (Jordan), has started expanding her business into other countries in the Middle East. "Allowing more women to learn about self-defence is my personal goal, and the prize was an eye-opener in this sense." Such expansion requires the global registration of the Shel lighter brand, for which Lina will receive joint support from UNCTAD and the World Intellectual Property Organization.
- Divine Ndhlukula (Zimbabwe), winner of the silver award, said that training was a key contributing factor to the growth of her security agency, SECURICO: "From a very young age I knew I wanted to be an entrepreneur ... my Empretec training in 1995 was a turning point". She dedicated her prize to her loyal 900 women employees. In an industry in which women comprised less than 1 per cent of the total workforce, SECURICO is the largest women's employer outside the Government.
- After receiving the bronze award, Lorena Picasso of SOMNO returned to her hometown in Santa Fe, Argentina, and reported: "Many doors that were closed to us before, have suddenly opened. It's a challenge, but I'm sure that we'll walk through it successfully". A delegation of 35 government officials presided by José Corral, the major of Santa Fe, visited Lorena in her workshop. The visit resulted in an agreement to replenish local day care centres in the region with SOMNOS toys.

In line with the Forum theme, "Investing in sustainable development," two green and social entrepreneurs have received special recognition. Pabla Torres, who launched the Biopro project, is now securing a public–private partnership with the local university in Mendoza, Argentina, to develop biological pesticides for wineries. Chemical engineer Leena Irshaid co-founded the Women's Cooperative Association in 2008 to bring agricultural products to market by using the highly skilled and underutilized capabilities of unemployed women in the region. The dimension of her initiative has gone far beyond her expectations, and receiving special recognition at the Empretec Women in Business Award ceremony only confirmed the gains of incorporating a strong social approach into business ventures. "I am extremely grateful and highly motivated to expand our Association".

Source: Empretec Newsletter No. 27

14. In light of this, governments have introduced policies and programmes to develop women entrepreneurs.[13] For example, Tunisia has established entrepreneurship policies

[12] See World Bank, 2007, Tanzania gender and economic growth assessment. Working paper; and Foreign Investment Advisory Service, 2005, Gender and growth assessment for Uganda: A gender perspective on legal and administrative barriers to investment.

[13] F. Mavoux, 2012, Gender mainstreaming in value chain development, *Enterprise Development and Microfinance*, 23(4), December.

featuring women's entrepreneurship, including lifelong learning programmes.[14] In the United States, the Small Business Administration partners with the National Women's Business Council and others to provide bold programmes to support women entrepreneurs and improve opportunities for their 7.8 million enterprises.[15] Some governments have promoted women's access to new markets and information and communications technologies (ICTs) by, for example, increasing access to the Internet. In addition, programmes for women's empowerment that increase cultural acceptance, highlighting female entrepreneurs as role models and raising public awareness, have proved successful (box 2).

D. Other policy issues

15. Green and social entrepreneurship stand to make valuable contributions to the achievement of sustainable development goals and promotion of economic growth, while enhancing social inclusion. A number of policy measures are being introduced: matching grants, development grants, feasibility grants, R&D funds, and steps to make grant funding available to maintain low acquisition prices for green technology and support upgrading and retrofitting. Special legal entity status for social entrepreneurship has sometimes been put in place, for example, in the United States. These types of firms often need to attract special financing (chapter II).

II. Financing for development, entrepreneurship and the post-2015 agenda

16. Financing is central to achieving sustainable development objectives. Building on the Monterrey Consensus of the International Conference on Financing for Development (2002), the Doha Declaration on Financing for Development (2008) highlighted the need for appropriate financial infrastructure that provides services and products for micro and small and medium-sized enterprises (MSMEs) and improves the availability of financing for enterprises.

17. The Third International Conference on Financing for Development, to take place in Addis Ababa in July 2015, can provide valuable support for the implementation of the post-2015 development agenda, including with respect to the contribution of entrepreneurship to achieving that agenda. The scope of the Conference set out in General Assembly resolutions 68/204 and 68/279 focuses on the progress made in the implementation of the Monterrey Consensus and the Doha Declaration and identifies obstacles and constraints encountered in the achievement of the goals and objectives agreed therein, as well as actions and initiatives to overcome these constraints.

18. In particular, A/RES/68/204 stressed the need to foster a dynamic and well-functioning business sector, while improving income growth and distribution, advancing women's empowerment and protecting labour rights and the environment. It also stated that microfinance, including microcredit, could be effective in generating productive self-employment, facilitating the achievement of the internationally agreed development goals. Many of these principles were reiterated in A/RES/68/279.

[14] Organization for Economic Cooperation and Development (OECD), 2014, *SME Policy Index: The Mediterranean Middle East and North Africa 2014 – Implementation of the Small Business Act for Europe* (Paris, OECD Publishing).

[15] https://www.sba.gov/content/womens-business-resources, accessed 8 February 2015.

19. According to the World Bank, access to finance has been identified as the key constraint to growth among 410,000,000–520,000,000 MSMEs globally, of which 360,000,000–440, 000,000 are in countries with emerging economies, with fewer than 30 per cent of these using external financing, half of which are underfinanced.[16] As a result, the unmet need for financing MSMEs, which contribute significantly to the economies of developing countries and emerging markets, is daunting. The International Finance Corporation estimates that the collective unmet financing need of entrepreneurs in developing countries amounts to $2 trillion,[17] while the World Bank estimates that the unmet need for credit among MSMEs in emerging markets is approximately $2.1 trillion–$2.5 trillion, approximately 14 per cent of the total gross domestic product of these countries.[18]

20. Ensuring access to financing for MSMEs is critical because of their key role in economic growth and sustainable development. According to the World Bank, ensuring unconstrained access to financing can help approximately 400,000,000 MSMEs in developing countries to significantly expand their economic opportunities, employ more people and generate additional income.[19]

21. The *World Investment Report 2014*[20] analyses the key challenges in maximizing the positive impact and minimizing the risks and drawbacks of public and private investment in sustainable development goals sectors. It calls attention to weak absorptive capacity in some developing countries, suggesting adequate policy responses to encourage and facilitate entrepreneurship, support to technology, human resources and skills development and the promotion of linkages and clusters in incubators or economic zones to support business creation in sustainable development goals sectors. The Action Plan for Private Investment in the sustainable development goals, put forward in the Report, encompasses these measures based on guiding principles that seek to balance, among others, the push for private funds with the push for public investment. The following sections discuss public and private financing mechanisms, as well as public–private partnerships (PPPs) to increase the contribution of entrepreneurship for sustainable development.

A. Public financing

22. Public finance has an important role to play in fostering entrepreneurship by developing public credit guarantees schemes, capacity-building grants and technical assistance to expand lending activities, promoting the use of new banking technologies, and providing financial literacy and adequate supervision of financial products offered to social entrepreneurs, micro-entrepreneurs and disadvantaged groups. Special attention should be given to assist innovative firms in the area of green technology and sustainability. To this end, innovation funds have been instrumental in spurring early stage entrepreneurship and innovation in the developed and developing worlds. Recently, inclusive innovation funds, which hold tremendous potential for pro-poor growth and for increased access to finance for MSMEs, have also emerged. For example, India's Inclusive Innovation Fund, established by the National Innovation Council in 2013, has helped catalyse the

[16] World Bank. 2013. *Financing for Development Post-2015* (Washington, D.C., World Bank).

[17] International Finance Corporation. 2014. Access to credit among micro, small, and medium enterprises, available at http://www.ifc.org/wps/wcm/connect/1f2e96804168990395 0bb79e78015671/AccessCreditMSME-Brochure-Final.pdf?MOD=AJPERES, accessed 8 February 2015.

[18] World Bank. 2014. op cit.

[19] Ibid.

[20] UNCTAD. 2014. *World Investment Report 2014: Investing in the sustainable development goals – An Action Plan* (New York and Geneva, United Nations publication. Sales No. E.14.II.D.1).

development of an entrepreneurial ecosystem and support innovation geared toward marginalized groups in society.

23. Similarly, Start-up Chile, a programme created by the Chilean Government and implemented by the Chilean Economic Development Agency, or CORFO, has enabled early stage high-potential entrepreneurs to launch their enterprises on a global platform. Start-Up Chile launched its pilot programme in 2010. This brought 22 start-ups from 14 countries to Chile, selected through an admission process conducted by Silicon Valley experts and representatives from the Chilean Innovation Board. By December 2014, the programme had provided financing and incubating facilities to more than 1,000 start-ups.

24. International development assistance plays an important role in financing for development. In recent years, for example, development partners have established challenge funds to stimulate entrepreneurship in developing countries, while addressing challenges associated with access to inclusive financing. Initiatives such as the Group of 20 (G-20) SME Finance Challenge, for example, are aimed at addressing market failures through the identification and scaling up of innovative financing solutions and path-breaking models that catalyse finance for SMEs on a sustainable basis.[21]

25. Other examples include innovative models of SME financing supported by the UNCTAD Empretec programme (box 3).

26. There are several other high-profile initiatives at the global level that aim to facilitate SME access to finance:

(a) OECD is analysing the difficulties in SME's access to finance during the crisis, against a background of a sharp decline in bank profitability and an erosion of bank capital that negatively affected lending;

(b) The Entrepreneurial Finance Lab Research Initiative of Harvard University utilizes a psychometric testing to measure risk and future entrepreneurial potential without requiring business plans, credit history or collateral. The initiative is now rolling out its methodology to banks in several developing countries;

(c) Child and Youth Finance International aims to empower youth around the world, particularly those who are vulnerable and marginalized, by increasing their financial capability, enhancing their awareness of social and economic rights, and improving their access to appropriate financial services;

(d) The Finance Alliance for Sustainable Trade, or FAST, is a membership association of financial institutions and producers backed by the United States Agency for International Development and dedicated to sustainable production and trade of sustainable products. FAST has developed a financial literacy toolbox providing a comprehensive education package aimed at improving financial literacy;

(e) At the regional level, the Seed Capital Assistance Facility is a support mechanism designed to champion early stage clean energy enterprises and projects in Africa and Asia. It offers investment fund managers two types of cost-sharing support for those willing to include a seed investment window in their overall investment strategy. It is implemented through the United Nations Environment Programme, the Asian Development Bank and the African Development Bank.

[21] http://www.changemakers.com/SME-Finance, accessed 8 February 2015.

Box 3. Financing models adopted by Empretec Argentina and Ghana

Argentina

Banco de la Nación Argentina and Fundación Empretec in Argentina launched an initiative in 2009 designed to provide medium- and long-term funding and technical assistance to dynamic and innovative technology-oriented SMEs. With regulatory barriers in Argentina precluding SMEs from accessing financing, Banco de la Nación established a dedicated trust fund designed to provide funding to promising start-ups and enhance the development of productive capacities, while catalysing the knowledge and creativity in society. The model addressed market failures associated with SME financing for start-ups, in particular, market uncertainty that is characterized by an increase in risks for new market entrants, information asymmetries and moral hazard associated with lack of experience and inadequate capital. These make it difficult for financial institutions to make an assessment, potentially increasing the default risk and reducing scale of SME initiatives, and ultimately increasing the costs associated with management and assessment. Fundación Empretec offered access to medium- and long-term credit to technology enterprises at a concessional (subsidized) rate, combined with specialized technical assistance.

Ghana

The United Nations Development Programme and the Government of Ghana provided funding to Empretec Ghana to establish a revolving fund designed to provide credit to MSMEs in tourism, manufacturing, construction and non-traditional export sectors to expand their businesses. The objectives of the three-year project were to build the productive capacity and facilitate the growth and expansion of MSMEs, and build Empretec Ghana's capacity to deliver credit on a long-term basis and provide loans to MSMEs with proven potential for growth or employment creation to acquire fixed assets or to revitalize or expand their businesses. Eligible MSMEs were required to repay the funds within 12–18 months. During the project, 631 entrepreneurs, most of whom were women, received credit and created 1,632 new jobs. Since its inception in 1996, Empretec Ghana has continued the scheme.

Source: UNCTAD.

27. Mobilizing investment for sustainable development remains a major challenge, particularly for least developed countries. Given the large development financing gaps in these countries, foreign investment can provide a necessary complement to domestic investment, and it can be particularly beneficial when it interacts in a synergetic way with domestic public and private investment and policies on promoting and strengthening local enterprises and suppliers. The Investment Framework for Sustainable Development of UNCTAD provides guidance to policymakers on how to work coherently towards the common national objective of sustainable development.

B. Private financing

28. Numerous private funding mechanisms have emerged in recent years, which have the potential to increase access to finance for MSMEs and contribute to the realization of sustainable development objectives. Traditional financing mechanisms, such as banks, remain important for SME financing. Banks, however, have strong risk aversion with regard to SME lending, particularly in developing countries, partly because SMEs have limited fixed assets that can be used as collateral. This section focuses, therefore, on other mechanisms that are ensuring access to financing for MSMEs: impact investment, business angels, venture capital, crowdfunding, microfinance, mobile money and capital markets. They are reviewed below.

29. Impact investment is a mechanism that can be a valuable source of financing for development. With objectives that encompass the promotion of societal value while achieving a social or environmental return, impact investments raise funds from individuals, foundations, NGOs and capital markets that are increasingly being used to support endeavours that will create jobs and provide services for marginalized groups particularly in developing countries. Foundations are playing an important role in impact investment in the enterprise sector. For example, the Tony Elumelu Foundation has invested in Mtanga Farms Limited, a small agribusiness that supports 125,000 smallholder farmers and is tackling food insecurity in the United Republic of Tanzania by growing disease-free potatoes.[7] Despite its growing popularity, scaling up investment funds that would help maximize their impact remains a key challenge. At the same time, the measurement of impact investment, which is in its infancy, need to be addressed to better understand and promote its role in entrepreneurship promotion.

30. Angel financing and venture capital are also important sources of financing for entrepreneurship. Business angels tend to be informal and operate on a smaller scale than that of venture capital and often offer lower transaction costs to their clients. While relatively limited in developing countries, they have been instrumental in providing the impetus for the emergence of technology start-ups in emerging countries and some developing countries.

31. Business angel networks such as India's Start-Up Village Angel Fund, which provides financing to promising start-up companies, is an example of this. The network of angel financing operators has become increasingly active in both the developed and developing world. The World Business Angels Association was formed in 2007, reuniting more than 15 national business angels associations worldwide. Based in Brussels, it aims to create an international community of business angel networks and leaders for the promotion of innovation and entrepreneurship through the financing of high-growth start-up companies.

32. Venture capital provides funding at the start-up stage or in early stage enterprise development and has become essential in spurring high-growth entrepreneurship. While venture capital is relied upon in much of the developed world, it is growing in importance in some parts of the developing world. In India, for instance, venture capital has helped fuel small business growth, with international and domestic operators providing funding to spur start-ups with high-growth potential in the ICT and biotechnology sectors. Key challenges for venture capital include regulatory frameworks that encourage venture capital involvement in early stages of enterprise development.

33. Crowdfunding is increasingly used as a financial mechanism that allows small businesses to raise funds in small amounts directly from individuals and organizations over the Internet and increasingly, using mobile technology and social media. For crowdfunding to take hold, appropriate regulation and mechanisms are essential to engender trust with Internet-based investment. However, while it can be a viable financial option for some MSMEs, including those in developing countries, crowdfunding's potential in these countries is yet to be realized, in large part, because the infrastructure to support Internet-based platforms is underdeveloped. Kiva, the first online lending platform, connects online lenders to low-income and underserved entrepreneurs around the world that need modest funding to help them develop a business opportunity. The platform, which allows individuals to borrow as little as $25 to support their initiatives, has facilitated over $650

[7] http://www.africa.com/blog/tony_elumelu_foundation_announces_impact_investment_deal_with_mtanga_farms_in_tanzania/, accessed 8 February 2015.

million with more than 1.2 million lenders providing funds to beneficiaries in 85 countries since 2005.[23]

34. Microfinance institutions are another key mechanism for promoting financial inclusion and are a source of financing for MSMEs. Efforts to promote financial inclusion among the world's poor have led to the growth of microfinance institutions that could provide affordable small-scale financing in the form of microcredit to previously unbanked and underserved people, including MSMEs. Unlike commercial loans, no collateral is required for microloans. However, these can represent an effective tool in addressing poverty, only if handled ethically by the lending organization and responsibly by the client. Therefore, a sound regulatory framework is essential for improving microfinance service delivery to MSMEs, as well as containing the lending costs associated with microfinance.

35. Increasingly, mobile money has begun to play an integral role in facilitating access to financing services for MSMEs. GSMA's Mobile Money for the Unbanked has partnered with 19 mobile operators and the financial industry to accelerate the availability of affordable, safe, and convenient financial services to millions of previously unbanked customers in developing countries.[24] While mobile money can enhance access to finance and promote financial inclusion, it nevertheless also requires appropriate regulatory frameworks, including an oversight function. Moreover, the services need to be affordable and widely available to maximize their benefits.

36. Capital markets can help bridge the gap in and meet the need for long-term financing for growth-oriented SMEs. Secondary trading boards[25] are becoming an important source of financing for SMEs in some parts of the developing world, including Africa and Asia. For example, in Botswana, Egypt, Ghana and Mauritius, these boards are helping SMEs in Africa raise equity for growth and expansion by lowering the demands for fees, track record and reporting requirements, and shareholder numbers.[26] Given a potential role that capital markets can play in SME financing, it is important to address regulatory requirements in this area to facilitate their role in providing financial resources for this sector.

C. Public–private partnerships

37. A proven but underutilized means of increasing access to finance in many developing countries is the establishment of PPP mechanisms to support reverse factoring. This kind of supply-chain finance is particularly attractive to SMEs in emerging markets, as suppliers can borrow based on their buyer's credit rating, which is often superior in the case of large domestic and foreign firms. Nacional Financiera is a specialized State development bank in Mexico that provides factoring services to SMEs. Business linkages programmes developed by UNCTAD in several countries also offer these schemes, among other business development services.

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[23] http://www.kiva.org/, accessed 8 February 2015.

[24] www.gsma.com/mobilefordevelopment/programmes/mobile-money-for-the-unbanked/about, accessed 8 February 2015.

[25] As described by the African Development Bank and the World Bank, secondary trading boards are alternative stock exchanges that are designed to facilitate access of SMEs to long-term financing by lowering the demands on the issuer. The World Bank states that secondary trading boards can help attract SMEs or firms for whom regular conditions are burdensome.

[26] African Development Bank, 2014, *African Development Report 2014: Regional Integration for Inclusive Growth*, chapter 5, Harnessing regional financial integration, available at http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/ADR14_ENGLISH_web.pdf (accessed 5 February 2015).

38. There are also international efforts leading to the establishment of PPPs for financial inclusion. The G-20 SME Finance Challenge is a unique competition, launched in 2010, that was open to private financial institutions, socially responsible investors, companies, foundations and civil society organizations, which were requested to identify solutions that make public programmes more effective in leveraging PPPs. Among the relevant areas were green, women-led and indigenous-led SMEs; social financing and SMEs; and post-disaster SMEs. The 13 winning proposals – over 340 entries – have been provided performance-based grants over three years. Their overall impact will be evaluated in 2015.

39. In the context of sustainable development goals, the World Investment Forum 2014 has also recommended the improvement and wider use of PPPs, including with donor support for sustainable development goal projects to improve risk-return profiles and address market failures. PPPs are typically used for energy, water and transportation projects but also in social infrastructure such as health care and education. PPPs can therefore support entrepreneurial development through social enterprises.

III. Developing indicators on the implementation of entrepreneurship policies

40. For entrepreneurship to achieve its desired impact on development it is important to measure results. In this regard, A/RES/69/210 recognized the importance of developing comprehensive and comparable data to monitor progress in the implementation of entrepreneurship policies. It encouraged the United Nations to identify indicators that can be used to evaluate the success of the entrepreneurship policies.

41. Measuring entrepreneurship and its impact on development remains a challenge for many reasons, including the existence of different definitions of entrepreneurship, its multifaceted nature and the limited availability of comparable and reliable data. These bottlenecks can be improved through the development of a framework and the careful selection of indicators based on agreed criteria that will enable policymakers to establish targets and objectives, monitor trends in entrepreneurship and evaluate the effectiveness of their policies in achieving their objectives.

42. Often the level of entrepreneurship has been evaluated by indicators such as self-employment, business ownership rates, or business start-ups. Based on data collected by GEM, the total early stage entrepreneurial activity ratio[27] has become a widely used measure of entrepreneurship at the country level.[28] However, there is growing recognition that such an approach would not necessarily give policymakers good guidance, as it can prompt a focus on increasing the quantity of entrepreneurs, while quality is in fact more relevant, and a simple count of start-ups or self-employed is not sufficient to assess the success of policies and their impact.[29] Indeed, recent research has pointed out that not all entrepreneurial efforts have the same impact on economic development and that, for example, high-growth young SMEs contribute more to job creation, business expansion and

[27] Measured as the percentage of a country's working age population that is actively trying to start a new business (nascent entrepreneurs) and at least partially own and manage a business less than 3.5 years old.

[28] L. Szerb, R Aidis and Z J Acs, 2013. **Error! Hyperlink reference not valid.** comparison of the global entrepreneurship monitor and the global entrepreneurship development index. *Foundation and Trends® in Entrepreneurship*, Vol. 9, No.1.

[29] JE. Amoros, N Bosma and Global Entrepreneurship Research Association, op. cit.

innovation.[30] Also, different phases of economic development may require emphasis on different components of entrepreneurship promotion.

43. To meet these challenges related to monitoring the impact of entrepreneurship on development, a number of indicators have been developed by various organizations, including the World Bank Doing Business Report, GEM and Global Entrepreneurship Indices (Global Entrepreneurship and Development Index), the OECD-Eurostat Entrepreneurship Indicators Programme, the International Consortium on Entrepreneurship, the World Bank Entrepreneurship Database and others.

44. These initiatives address the issue from different perspectives. For instance, the World Bank Entrepreneurship Database collects information on firm registration (entry and exit barriers) and focuses on policies that affect new firm registration, that is to say, firm registration procedures and administration.

45. The GEM report provides harmonized measures on attitudes, activities and characteristics (aspirations) of individuals who participate in various phases of entrepreneurship. Its overall objective is to measure differences in the level of entrepreneurship activity between economies on similar economic development levels (grouped as factor-driven, efficiency-driven and innovation-driven economies) and geographic locations.

46. The Global Entrepreneurship and Development Index is an annual combined index comprised of three subindexes that capture the contextual features of entrepreneurship across individual and institutional variables.[31] Subindexes follow the GEM classification of elements and measure entrepreneurial attitudes, entrepreneurial activities and entrepreneurial aspirations. The methodology is built on the premise that not all entrepreneurs have an impact on economic growth, and focuses on start-up activities and entrepreneurs with a high growth potential.

47. In 2008, OECD developed three sets of indicators to measure entrepreneurship, contained in the Entrepreneurship Indicators Programme: determinants (policy actions), entrepreneurial performance and impact (policy objectives) indicators.[32] OECD proposes five main areas of determinants of entrepreneurship: Opportunities, skilled people, resources, regulatory framework and culture. According to this framework,[33] opportunities are created by market conditions, which are determined by public policies and intervention, competition, access to foreign markets, procurement regulations and other factors. In this context, the term "skilled people" relates to the individual capabilities of the entrepreneur and access to entrepreneurial infrastructure. Capital covers all phases of business life, from access to early seed funds to access to the stock markets. R&D in this case is a resource that can be created or purchased, whether directly or in an embodied or diffused form. The regulatory framework encompasses all taxes, regulations and other public rules and institutions affecting entrepreneurship. Finally, culture comprises each individual's assumptions, adaptations, perceptions and learning.

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[30] C Criscuolo, P Gal and C Menon, 2014, The dynamics of employment growth: New evidence from 18 countries, OECD Science, Technology and Industry Policy Papers, No. 14.

[31] GEDI, 2010, The Global Entrepreneurship and Development Index: A brief explanation, available at www.imperial.ac.uk/business-school.

[32] OECD, 2008, A Framework for Addressing and Measuring Entrepreneurship.

[33] For instance, the Entrepreneurship Indicators Programme (EIP) include: regulatory framework (10 indicators), market conditions (6 indicators), access to finance (5 indicators), R&D and technology (6 indicators), entrepreneurial capability (4 indicators) and culture (4 indicators).

48. Other instruments provide analytical tools to identify determinants of entrepreneurship and focus on benchmarking existing gaps and providing comparable data. For example, Prodem, in collaboration with the Inter-American Development Bank, has developed the Index of Systemic Conditions for Dynamic Entrepreneurship (ICSEd-Prodem), a tool allowing professionals in entrepreneurial ecosystems in Latin America to define a benchmark and identify the most relevant factors that need to be improved in order to close the existing gap in dynamic enterprises – those that have the capacity to create high-quality jobs. The tool is designed to help identify countries' main strengths and weaknesses and allow for the development of strategies and initiatives that will promote entrepreneurship and ultimately increase productivity. ICSEd-Prodem encompasses 10 dimensions that have an impact on the quantity and quality of emerging enterprises, including social capital, policies and regulations, science, technology and innovation platforms, business structure, educational systems, demand conditions, social conditions and culture, which contribute to understanding the current dynamic entrepreneurship scenario and its future outlook in Latin America.

49. There are other initiatives in specific areas for entrepreneurship development. The World Bank Impact Assessment Framework, for example, provides insights and criteria on the basis of a suitable approach to evaluate the impact of various SME finance policies, interventions and regulations. The Framework enables policymakers and regulators to select adequate approaches in order to evaluate SME finance policies and interventions and encompasses a comprehensive set of impact evaluation techniques, their assumptions, strengths and limitations. While impact evaluation approaches have been used to assess SME finance policies, including regulatory frameworks, financial infrastructure and public interventions, they have broad applicability in SME and financial inclusion interventions.[34]

50. OECD has also developed a scoreboard on SME financing. The scoreboard assesses SME and entrepreneurship finance trends using a core set of indicators that include SME debt, equity finance, solvency and policy measures that provide policymakers with a comprehensive framework to evaluate whether SME financing needs are being met, support the design and evaluation of policy measures, and monitor the implications of financial reforms on the access of SMEs to finance. Thirteen sets of indicators[35] provide a consistent snapshot of a country's market for business and changes over time. While the scoreboard on SME and entrepreneurship allows for comparison of general trends across countries, its major challenge for comparability is lack of harmonization with the definition of SMEs across countries.

51. The UNCTAD Entrepreneurship Policy Framework provides an approach and the methodology to assess the level of entrepreneurship policies development in a country at a point of time, to identify gaps, and to monitor progress over time to address them. It contains a list of 23 subindicators for the six areas of the framework: formulating national entrepreneurship strategy, optimizing the regulatory environment, enhancing

[34] Global Partnership for Financial Inclusion and the World Bank, 2012, *Impact Assessment Framework: SME Finance* (Washington, D.C., World Bank), available at http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/282884-1339624653091/8703882-1339624678024/SMEFinanceImpactAssessmentFramework.pdf, accessed 8 February 2015.

[35] SME loans in business loans, share of SME short-term loans in total loans, SME loan guarantees, SME guaranteed loans, SME direct government loans, SME loans used, SME non-performing loans, spread between large and small enterprises, SME interest rates, venture capital and growth capital, payment delays, interest rates and bankruptcies. (OECD, 2014, Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard (preliminary version), available at http://www.oecd.org/cfe/smes/SMEs-Scoreboard-2014.pdf).

entrepreneurship education and skills development, facilitating technology exchange and innovation, improving access to finance, and promoting awareness and networking.

52. For example, to evaluate existing measures related to formulating a national entrepreneurship strategy and how to improve them, respondents need to answer 13 questions on whether the country has assessed the national entrepreneurial environment, specified its goals and priorities and taken measures to ensure coherence of entrepreneurship strategy with other national policies; it must indicate whether specific measures have been developed to strengthen the institutional framework and coordination and whether there are mechanisms to ensure results measurement and policy learning. There are checklists in all other areas of the Entrepreneurship Policy Framework. The approach employs a guided self-assessment methodology, combined with the active participation of all major national stakeholders. It also employs a user-friendly statistical model to develop scoring in each of the components of the Framework and the country's scoring. The Framework further suggests a list of indicators to assess the effectiveness of the entrepreneurship policies in each of the six areas.[36]

53. These initiatives are noteworthy. However, there is a need to develop an international consensus and guidance on core indicators that takes account of developing countries' contexts and allows policymakers to monitor trends and measure the effectiveness of entrepreneurship policies that are adapted to their national context and are comparable internationally. To achieve this goal, it is important to take the following steps:

(a) Define the scope of entrepreneurship. There is an urgent need to adopt a common definition. The OECD, for example, defines entrepreneurship as a phenomenon associated with entrepreneurial activity as the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets. In this regard it argues that large companies could also be entrepreneurial, while those SMEs that do not meet the criteria of doing something "new" are excluded. Recently GEM also included assessment of the entrepreneurial attitudes of employees of large companies into their measurement of entrepreneurship development. In many countries, however, entrepreneurship is associated with the development of domestic start-ups;

(b) Develop a conceptual framework for entrepreneurship indicators. Given the complexity and diversity of possible approaches to entrepreneurship and its measurement and indicators, it is critical to develop a framework that could guide policymakers in adapting them to their national context. For example, some countries may focus on entrepreneurship contribution to economic growth, while others will see job creation or social inclusion as a priority. The existing frameworks mentioned above are a good starting point;

(c) Select a list of core internationally comparable indicators. The core indicators or variables must be relatively uniform across countries in terms of the population of the data set, measurement methodology, method of data collection and periodicity or timeliness. The criteria to select the core indicators should ensure that they are measurable, achievable, useful, relevant, comparable and cost effective. They should cover both financial and non-financial aspects.[37] The development of indicators requires a coordinated approach at the international level, including the establishment of a working group or

[36] http://unctad.org/en/Pages/DIAE/Entrepreneurship/Entrepreneurship-Policy-Framework-and-Implementation-Guidance.aspx, accessed 8 February 2015.

[37] For example, topics such as well-being – whether people are satisfied with their lives and jobs – are taken into account, for example, by GEM. OECD also states that creating value in its definition of entrepreneurship covers monetary and non-monetary returns for society.

consultative committee to ensure inclusiveness of the discussions and consideration of all good practices.

54. The following aspects should be also considered:

(a) Measurement. The essential feature of data collection on entrepreneurship policies should include both quantitative and qualitative assessments. In the latter, case studies and peer reviews allow for experiences to be exchanged among a group of reviewers from different organizations in different places, seeking to address similar challenges. In addition to national data collection, consideration of subnational and local conditions is important, and specific indicators should be developed to take this into account;

(b) Monitoring. At the national level, the coordinating institution that oversees the development of an entrepreneurship strategy and its implementation should take on board the task of monitoring its progress. It should develop action plans with indicators that are measurable, time bound and easy to collect. Coordinating institutions need adequate human and financial resources;

(c) Evaluation. This should incorporate internal and external mechanisms. At inception, a baseline survey should be conducted and the necessary data collected at each stage of implementation to determine whether the policies and programmes achieve desired outcomes. As a learning tool, the internal evaluation should embed feedback mechanisms that would allow necessary adjustments. The external evaluation should support this process, offering technical tools and advice, and ensuring good governance and transparency;

(d) Capacity-building and outreach. A comprehensive capacity-building and communication strategy can help explain the adopted framework and how to adapt it to the national contexts. Training and information should reach beneficiaries, stakeholders and the public at large. Awareness campaigns on entrepreneurship development and the use of social media would strengthen accountability and transparency.

IV. Conclusions and issues for discussion

55. Entrepreneurship can make a critical contribution towards attaining the sustainable development goals of the post-2015 development agenda, including poverty eradication, empowerment of youth and women and other disadvantaged groups, and full and productive employment for all. It can also help tackle environmental challenges. This will require supporting the evolution towards a new generation of entrepreneurs and entrepreneurship policymakers with a vision and joint commitment to promote entrepreneurship for sustainable development. To that end, UNCTAD will continue to assist governments and institutions in building an enabling environment to foster entrepreneurship based on the Entrepreneurship Policy Framework through the Empretec network and other technical assistance programmes.

56. This note has presented recent trends in entrepreneurship development and addressed issues related to the identification of comprehensive and comparable indicators to assists policymakers in their endeavours. To enhance the contribution of UNCTAD to the proposed sustainable development goals and targets, the discussions could focus on the following issues:

(a) How to ensure that entrepreneurship promotion contributes to the achievement of the sustainable development goals?

(b) What are the key challenges and good practices in developing indicators to monitor the implementation and evaluate the success of entrepreneurship policies?

(c) What steps can UNCTAD take to follow up on proposed recommendations contained in the General Assembly resolutions on entrepreneurship for development?

57. UNCTAD, in collaboration with the Department of Economic and Social Affairs, has proposed specific actions that the United Nations could support in implementing the General Assembly resolutions to further foster entrepreneurship:[9]

(a) Convene a global forum on entrepreneurship for development to scale up and transfer entrepreneurs' experiences, and encourage the adoption of common impact indicators and a charter for entrepreneurial change;

(b) Develop global, national and subnational networks of entrepreneurship and enterprise educators;

(c) Expand the work on financial inclusion by increasing the capacity, competency and willingness of financial institutions and proximity lenders to serve MSMEs, cooperatives and social enterprises;

(d) Enhance entrepreneurship opportunities for youth, for example, by setting up a global mentoring scheme or by declaring a "year of the young entrepreneur";

(e) Empower women entrepreneurs through a network of goodwill ambassadors for women's entrepreneurship;

(f) Last but not least, the United Nations could offer guidance on the inclusion in entrepreneurship programmes of disadvantaged social groups such as minorities, migrants and persons with disabilities.

58. The Commission may wish to discuss further how to develop these ideas and propose any follow-up as deemed necessary.

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[9] General Assembly, 2014. Entrepreneurship for development. A/69/320. New York, 18 August.